

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2021/2022

DBM5624 PRINCIPLES OF FINANCE

(All Sections/Groups)

19 NOVEMBER 2021

9.00 AM – 11.00 AM

(2 hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 4 pages excluding cover page. The formulae appendices are given.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.

Instruction: Answer ALL questions.

QUESTION 1

- (a) Miles Mini Berhad needs to raise RM22 million and they plan to issue two types of bonds. Bond Trans, is a 20-year bonds along with 7.6 percent rate of return in the current market, while Bond Prime is a 15-year bonds with an 8.5 percent rate of return in the current market for this purpose.

Miles Mini Berhad issues a zero coupon bond, in which the type of issuance that they always did for the past few years, as this bonds attract more investors. This is also one of the reason why their company is among the preferable company in the market. The company's tax rate is 34 percent. Currently, the company issues semi-annual compounding for their bond issues.

Based on the information regarding Miles Mini Berhad above, answer the following questions:

- (i) At bond maturity, how much will Miles Mini Berhad need to pay to their bondholders for the issuance of each of the two types of the zero coupon bonds? (8 marks)
 - (ii) In order for the company to raise RM 22 million, how many units of the zero coupons bonds that Miles Mini Berhad required to issue, if 60% of their bondholder holds Bond Trans and the remaining hold Bond Prime? (5 marks)
 - (iii) If the rate of return increases by 2 percent and with quarterly compounding, what is the effect towards both of the bond's price at maturity? Explain your answer. (8 marks)
 - (iv) If Mr Kamal would like to invest in Miles Mini Berhad, and he is a conservative investor, which type of bond should he invest, and why? (1 mark)
- (b) Guar Hunny Berhad issued Bond JKL that yielded a real rate of return of 3.87 percent for a time period when the inflation rate was 3.75 percent. What was the actual nominal rate of return? (3 marks)

(Total: 25 marks)

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QUESTION 2

- (a) Monica Electrical Supply is one of the most successful electrical supply company in Johor. For the past five years they are supplying merchandise to schools and factories.

Monica's has paid a constant annual dividend of RM2.40 a share for the past ten years. On their recent management meeting, the firm had announced that the dividend will increase next year by 10 percent due to their good performance and will stay at that level through Year 4. After Year 4, the dividends shall increase by 5 percent annually.

The required return on this share is 12 percent. As an investor, Suraj needs to find more information about Monica's share. Thus, he needs answer for the following questions:

- (i) How much is the share's price at Year 4? (5 marks)
 - (ii) What are the dividends amount for each year, from Year 1 until Year 4? (6 marks)
 - (iii) What is the current value per share, as of today? (7 marks)
 - (iv) If Suraj plan to buy Monica's share, but due to a limited budget, he can only buy shares worth RM1,000. How many units of share will he be able to purchase? (2 marks)
- (b) Pro Dynamic Berhad had just paid an annual dividend of RM2.84 per share on its shares. It is expected that the dividends will grow at a constant rate of 2.5 percent per year. If investors require a rate of return of 10.4 percent, what will be the share's price be in Year 11? (5 marks)

(Total: 25 marks)

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QUESTION 3

- (a) Top 1 Wood requires an average accounting return (AAR) of at least 17.5 percent on all fixed asset purchases. Currently, Top 1 Wood is considering some new equipment costing RM200,700. This equipment will have a four-year life time and it will be depreciated on a straight-line basis to a zero book value. The annual net income from this equipment is estimated to be at RM7,100, RM13,300, RM18,600, and RM19,200 respectively for the four years.

Based on the accounting rate of return, should you recommend this purchase? Justify. (5 marks)

- (b) DryMintz would like to spend RM215,000 to expand their warehouse. However, the company has a loan outstanding that must be repaid in 2.5 years and the company will need the RM215,000 at that time. The warehouse expansion project is expected to increase the cash inflows by RM60,000 in the first year, RM140,000 in the second year, and RM150,000 a year for the following 2 years.

Should DryMintz proceed with their expansion plan? Justify your answer. (8 marks)

- (c) Danial has been assigned by his manager to evaluate two mutually exclusive projects, on expanding their new branch. The required return on each project is expected to be 14 percent.

Year	Project AAA (RM)	Project BBB (RM)
0	-24,000	-21,000
1	9,500	6,500
2	16,200	9,800
3	8,700	15,200

Based on above information, Danial is required:

- (i) to analyse which project should he recommend by computing the project's Net Present Value (NPV). (10 marks)
- (ii) to provide the justification to his manager. (2 marks)

(Total: 25 marks)

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QUESTION 4

(a) Ronnie would like to invest in the Titan Pixar Berhad. He understands that it is very important for him to know the company's cost of capital, as it is the return earned on assets that depends on the risk of those asset. Therefore, he discovers the following information concerning the company.

- Debt: RM7,500, 6.8 percent coupon bonds outstanding, with 11 years to maturity and a quoted price of 97.9. Given the firm's cost of debt, is 7.08 percent.
- Common stock: 284,000 shares of common stock selling for RM68 per share. The share will pay a dividend of RM2.62 next years. The dividend is expected to grow by 2.5 percent per year indefinitely.
- Preferred stock: 9,000 shares of RM8 preferred stock selling at RM88 per share.
- Company:34 percent tax rate.

Based on the information, how much is the WACC (Weighted Average Cost of Capital) for Titan Pixar Berhad? (20 marks)

(b) Danisha's just paid an annual dividend of RM4.50 on its common stock and increases its dividend by 2.2 percent annually. What is the rate of return on this share if the current share price is RM35 a share? (5 marks)

(Total: 25 marks)

End of Paper